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Message Text

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11
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 FEA-01 PA-01 PRS-01 /081 W
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R 102117Z JUL 75
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 9409

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EO 11652 NA
TAGS/ EFIN VE
SUBJ: VENEZUELA INVESTMENT FUND

1. MINISTER OF STATE FOR THE VENEZUELA INVESTMENT FUND CONSTANTINO QUERO MORALES TOLD PRESS JULY 9, THAT FUND HAS BEEN PLACING ITS SHARE OF COUNTRY'S OIL REVENUES IN HIGHLY LIQUID SHORT TERM DEPOSITS ABROAD AS A HEDGE AGAINST POSSIBLE OIL REVENUE DECLINE SUBSEQUENT TO NATIONALIZATION. NEVERTHELESS, QUERO MORALES INDICATED OPTIMISM THAT RE-VERSION WILL NOT RESULT IN DISTORTION IN OIL DELIVERIES OR IN THE GENERATION OF OIL REVENUE. HE NOTED THAT VENEZUELA HAS BEEN THE TRADITIONAL SUPPLIER OF THE EAST COAST OF US AND CANADA AND SEES NO REASON WHY THIS SITUATION SHOULD CHANGE. HE ADDED THAT NATIONALIZATION LAW "CONTAINS PROVISIONS WHICH REPRESENT A JUST TREATMENT FOR CONCESSIONAIRES", AND THAT NATIONALIZATION NOW IS SIMPLY AN ACCELERATION OF RECESSION WHICH WAS SCHEDULED FOR 1985.

2. MINISTER SAID THAT AFTER NATIONALIZATION IS COMPLETED THE FUND CAN ENTER INTO OTHER TYPES OF PLACEMENTS. THE FUND HAS ALREADY BEEN CONSIDERING
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LONG TERM INVESTMENT PROGRAMS ESPECIALLY IN ENERGY

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AND TRANSPORTATION. SOME BS 8 BILLION HAS BEEN
EARMARKED FOR THE STATE OIL COMPANIES OVER THE NEXT
FOUR YEARS AND ANTHER BS 3 BILLION FOR MODIFYING
REFINERIES TO PRODUCE THE MORE EXPENSIVE LIGHTER
PETROLEUM PRODUCTS. ANOTHER BS 1 BILLION HAS BEEN
SET ASIDE FOR INVESTMENT IN THE NATIONAL TANKER
FLEET WHICH AT THE INITIAL STAGE IS EXPECTED TO
CONSIST OF SEVEN 60 TO 80 THOUSAND TON TANKERS.

3. QUERO MORALES ADMITTED THAT THE GOVT'S
DECISION TO CUT GOVT SPENDING BY 10 PERCENT WOULD
ADVERSELY AFFECT THE FUND'S REVENUE FOR THIS YEAR
BUT EXPRESSED THAT HOPE THAT INCREASED DEMAND FOR
PETROLEUM OVER THE NEXT SEVERAL MONTHS AND INCREASED
PRICES WOULD CAUSE THE FUND'S REVENUE TO BE INCREASED
AGAIN.

4. COMMENT: FROM THE TIME OF ITS INCEPTION ONE
OF THE OBJECTIVES OF THE FUND HAS BEEN TO BE A BUFFER
AGAINST THE FLUCTUATION OF OIL REVENUES RESULTING FROM
CHANGES IN PRODUCTION, EXPORT AND PRICE. AT THIS
POINT, THE EMBASSY DOES NOT PLACE ANY SPECIAL
SIGNIFICANCE ON QUERO MORALES' REMARKS. THEY RESTATE THE
GOVT'S INTNTION TO BE CONSERVATIVE WITH REGARD TO THE
USE OF INCREASED OIL REVENUES UNTIL POST-NATIONALIZATION REVENUE
PROSPECTS ARE CLEARER. IN THAT REGARD, JOHN PHELPS, A RECENTLY
APPOINTED DIRECTOR OF THE FUND, TOLD THE AMBASSADOR THAT UNTIL
HE COME ON BOARD IT SEEMED TO HAVE OCCURRED TO NO ONE THAT THE
NATIONALIZED INDUSTRY WOULD NEED WORKING CAPITAL. THE SET-ASIDE
OF BS 8 MILLION INDICATES THAT THAT REQUIREMENT IS
NOW UNDERSTOOD.
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